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25X1A

LMSD's opinion that considerable reductions could be made. However, because of security and "political" implications they were not counting too heavily on this. Therefore, in lieu of contacting [REDACTED] they had taken the present cost of hardware only and doubled it for purposes of this estimate. For each additional unit LMSD estimated a unit price of \$220,000.

25X1A

5. Contractor had made inquiry regarding disposition of Unit No. 9007 which had crashed on VAFB. After visually inspecting the item at Contractor's plant and discussing salvage possibilities, Messrs. [REDACTED] and the undersigned agreed that the unit should be returned to Project Hqs. for destruction. LMSD had no practicable way of destroying it there because of security reasons. A TWX will be sent to confirm this decision.

6. Considerable discussion was held regarding Contractor's purchasing system and methods. Because of the change to CPFF contracts for C' and A Program, the Contractor was concerned with the increased documentation required. The particular area of concern was for items of low cost (under \$100). Examples are a band saw and small tools for the VAFB building, asphalt tile for the new Hiller Wing, etc. It was agreed that Contractor would recap these purchases only on a monthly basis and submit them for the Contracting Officer's approval.

7. Contractor also inquired as to the amount of documentation required with CPFF billings. He was informed that we would accept the same type of material as submitted with its invoices to other Government agencies. Contractor stated because of security requirements they might not be able to do this in all cases. Accordingly, a letter was to be prepared outlining the amount and types of data they proposed to submit.

25X1A

8. The undersigned wishes to comment on only two items which occurred during the course of the ARGON meeting. The first has to do with possible schedule slippages. A chart of sun angles at certain latitudes versus time of the year was presented by [REDACTED]. For the type of coverage desired, the best time of the year was from the middle of June to the first part of September. Lockheed is now forecasting a slippage of the first unit to late August due to Fairchild. With a turnaround time of 28 days for each launch pad, it would appear that only two shots could be made. LMSD is trying to regain some of the forecasted slippage at a meeting with Fairchild next week.

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43

However, there is the possibility that the shots could be delayed to the following year with the corresponding increase in cost which generally accompanies such delays. The second item for comment regards the number of contractor people and DOD people in attendance. The attached list speaks for itself.

9. On 4 March, the undersigned met with Mr. [REDACTED] of Granger Associates. The purpose of this meeting was to explain the operations and procedures involved with the T&M and Open Call contract we were in the process of issuing to Granger. Also, it was hoped to arrive at a final price for Contract No. SE-509.

25X1A

10. Following the discussions on this T&M and Open Call, the Contractor presented its proposal for the T&M rates and Open Call Pricing formula. The following is the breakdown:

T&M

Current labor rate by Category X Overhead @ 85% X G&A @ 16%  
X Profit @ 15% = Contract Hourly Rate.

Material at cost X G&A @ 16%

Open Call

Current labor rates by Category X Overhead @ 85% plus Material and other direct charges at cost X G&A @ 16% X Profit @ 9% =  
Total Selling Price.

11. The above corresponds to a pattern established with our other Contractors for similar services except for the profit rate on the T&M contract. Contractor stated that experience on this type of contract indicates they have more material costs than direct labor. Therefore, in an effort to gross 10% across the board they proposed to apply a factor of 15%. Further questioning revealed that most of these "other" contracts were of a commercial type. Only one was with the Government and this was with our Agency O/L in support of P2V7 Jammer work. He stated the original profit rate on this was 20% and it presently stood at 15%. The reduction was as a result of more direct labor being expended than anticipated. He proposed that if the same trend occurred under our contract they would reduce the profit from 15%. However, after further discussions with the Project engineer, [REDACTED] which indicated there would be more direct labor, the Contractor agreed to a rate of 10% for the first period of the contract ending 30 June. This rate was not to be binding upon either party for the subsequent period.

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12. The Contractor was informed that subject to approval by the Auditor of the rates quoted and the Contracting Officer's approval the above proposals were satisfactory and should be submitted in writing.

13. Discussions were then held regarding the final price under Contract No. SE-509. The first item I mentioned was an accounting of Government furnished property. We had furnished 96 line items and 3 pieces of test equipment. The Contractor's residual list was quite different from this. Also, the quantities did not correspond. It developed upon review that the Contractor had used many of the GFP items in the manufacture of the units. Also, he had procured additional items of which there was some residual. Therefore, the residual list is comprised of both GFP and Contractor procured equipment. The undersigned went over each item with Contractor to arrive at the correct quantities of remaining GFP. Efforts were made to contact Captain Krikorian, the local auditor, in order to have this verified. However, he was absent from the city. It was agreed that any price settlement would be subject to this verification.

14. The Contractor was requesting a profit rate of 17.8% on the final cost. Considerable discussion took place on this aspect. The following reflects the Contractor's proposal and the Government's offer:

<u>Contractor's Proposal</u>		<u>Government Offer</u>	
Cost	\$60,550.60	\$ 60,550.60	
Profit	<u>10,795.19</u>	<u>7,635.11</u>	
Total	\$71,345.79	\$ 68,185.71	12.6%
Less Materials Retained	<u>66.78</u>	<u>66.78</u>	
	\$71,279.01	\$ 68,118.93	

The discussion ended in a temporary stalemate. The Contractor wished to review our offer with management. He promised to contact the undersigned prior to 9 March on this matter. It is my opinion that the Contractor will request something in between the two amounts, but if we hold the line he will accept our offer in the end.

15. Just prior to departure, I queried the Contractor regarding delivery of the five units now on order under Contract No. SE-510. The first unit had been scheduled for delivery

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15 January and one each every 30 days thereafter. None have been delivered to date. The Contractor stated that they have yet to receive a satisfactory TWT from Litton Industries. Litton has been promising delivery each week but are being hampered by manufacturing process difficulties. Granger is confident that they will come through. However, if they don't and are forced to go to another source, it will require considerable rework of the units and delay in delivery.

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Deputy Chief, Contracts Branch, DPD

25X1A

DPD-DD/P: [REDACTED]:pf

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